Militarism and the American Economy
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In the mid 1970s, the United States launched an unprecedented peace time military build-up. By 1986, US military purchases totalled 251 billion in 1982 constant dollars, a sum which exceeded by $4 billion the top expenditures of the Vietnam War reached in 1968, and was only $2 billion below the Korean War peak attained in 1953. If the US government fully implements its “Star Wars” program, its military expenditures, in real terms, will significantly surpass those of the Korean War.

Such enormous outlays—which are now approximately equal to two-thirds of Canada’s Gross Domestic Product—have had
and will continue to have an important impact on the economies of the United States and the rest of the world. This paper will examine both the internal and external impacts of this build-up. It will show that both the causes and results of this build-up stem directly from and contribute to the crisis which faces the United States and the rest of the capitalist world.

1. Internal Impact The internal impact of rearmament depends on: (1) a country’s stage of economic development; and, (2) its rate of capacity utilization at the time of the rearmament program. Generally speaking, militarization will have the least harmful effects if the country is at an advanced stage of development, and if it has a low rate of capacity utilization.

Let us examine how military expenditures affect a developed economy under two sets of circumstances: full employment and high unemployment.

If an arms build-up starts at a time of full employment, then an economy faces a serious problem of resource allocation. Resources previously used to produce consumption and capital goods are shifted to the production of military goods. In a conventional military build-up, a significant sector of the labour force will be transferred from productive activity to the armed forces. As part of the armed forces, these workers, as a rule, will not make any contribution to the nation’s productive activity. This shift of resources has the immediate effect of lowering living standards, and the long-run effect of slowing down the rate of economic growth because of the reduced production of capital goods.

In reality, in all the major capitalist economies there is at present no such resource allocation problem since full-employment does not exist. To the extent that it exists at all in the world, it exists in the planned economies. It is these economies which face a trade-off between military expenditures and living standards. This fact, as we shall see, is an important motivation behind the current US military policy.

Because the major capitalist economies are experiencing their highest levels of unemployment since the Great Depression, today’s military build-up is similar to that of fifty years ago. That previous experience has led many people to associate military expenditures with prosperity.
High levels of unemployment enable the military to claim idle resources. This diversion of idle resources does not force a reduction in the production of consumer and capital goods. Military expenditures, by increasing the incomes of its recipients, may under these conditions actually stimulate the production of both consumption and capital goods. Those receiving payments from the military establishment constitute a significant market for these types of goods. With high unemployment, an economy can have both more guns and more butter. This policy of using the military to stimulate the economy is what Treddenick has termed “military Keynesianism”.

It apparently worked very well in both the United States and Canada during World War II and the Korean War. The success of this policy led Galbraith to conclude that military expenditures are an important regulator of demand, a means by which the economy can be kept on an even keel so as to better “serve the needs of the industrial system”.

The implications of Galbraith’s remarks are that these expenditures are the means by which capitalism tries to overcome one of the most obvious manifestations of its basic contradictions, the periodic eruptions of economic crises. While such crises are necessary for the “efficient” (i.e., efficient from the point of view of the system) functioning of the system, they also pose a threat to its very existence.

It is during such crises that the class character of the system becomes apparent to the great masses of the population, and in particular to the working class. The class struggle intensifies. Military expenditures, by creating employment and raising living standards, tend to mask the class nature of society, and to lessen the intensity of class conflict. By stressing patriotism, they substitute nationalism for class consciousness. There are, however, as we shall see, limits to their effectiveness in solving economic crises.

They were not effective during the Vietnam War, and are not working well today. Major changes in military technology are, at least in part, responsible for this reduction in effectiveness. The concentration on developing missile systems, and on the use of advanced technology has led to the substitution of equipment for personpower. This substitution has substantially reduced the positive employment effects of military expenditures.
Not only has the military build-up failed to provide full-employment, but it has actually coincided with a decline in living standards. In terms of constant 1985 dollars, the median family income in the United States dropped from $29,087 in 1978, to $27,735 in 1985, a figure which was below the median of 1970, fifteen years earlier. At the same time, the number of families living below the poverty level increased from 9.1 percent in 1978, to 11.4 percent in 1985. This percentage, while lower than that for the years 1982–1984, was higher than the figure for every year during the period 1968–1981 inclusive. Between 1979 and 1986, the number of unemployed rose from 6.1 million to 8.2 million. In the same period, the average weekly earnings in the private, nonagricultural sector dropped, in terms of 1977 constant dollars, from $183.41 to $171.07. The data thus clearly show that the present military build-up has not had the salutary effect of former times.

Militarism may have a longer-run impact than indicated by these figures. Since jobs created by the present rearmament program are confined mainly to the highly skilled and technically-trained strata of the work force, this talented group is diverted from engaging in direct research for the civilian market. This diversion could seriously undermine a nation's competitive position. It is perhaps no accident that the United States, a victor in World War II, faces stiff competition from two of its vanquished enemies, Germany and Japan. The main reason for the remarkable performance of these two countries is probably the prohibition imposed by the Allies on their rearmament. Because of this prohibition, their scientific and technical personnel devoted their energies to the civilian market while those of the United States were building bigger and more destructive missiles.

Modern developments in technology have thus changed the economic impact of militarism. In the short-run, militarism is no longer an effective way to overcome a particular crisis; in the long-run, it may seriously undermine a nation's competitive position.

2. External Effects In addition to technology, there is another factor which seriously weakens the stimulating effect of a
military build-up. This factor relates to the impact of the build-up on other nations.

I have noted elsewhere that probably the most important characteristic of today's world is that we are in an era of economic warfare. There are at least three distinct economic wars going in the world today: the North-South war, i.e., the struggle between the industrialized market countries and the nations of the Third World; the East-West struggle, more commonly known as the "Cold War"; and, the struggle among the world's industrialized economies over markets, alternate sources of energy and new technology.

In the immediate post-World War II years, the East-West struggle was the most important one confronting the world. In the late sixties and during most of the seventies, a period of detente set in. In those years, the North-South struggle moved to the forefront. Of immediate concern to most of the market economies was the growing power of OPEC and the sharp increases in world oil prices. It was also during this period that other industrialized countries, and especially Germany and Japan, began to undermine significantly the dominant position of the United States in the world economy.

With the triumph of Reagan in the Presidential election of 1980, the Cold War again moved to the centre of the world stage. At the same time, the other struggles also intensified. This intensification arose from the attempts of the Reagan administration to restore the United States to the dominant position it held in the immediate post-war years. The present US arms build-up is part of this attempt, and is an essential ingredient of US strategy in these economic wars.

While mainly directed against the Soviet Union and its Warsaw Pact allies, the US rearmament program affects the economies of the Third World and of the other industrialized countries as well. It is these effects which complicate US strategy, and which force US policy makers to restrain any boom resulting from the high level of military expenditures.

One of the main purposes of the US arms build-up is to engage the Soviet Union in an arms race, which the US believes that it is bound to win. In a session with out-of-town reporters held in the White House on 16 October 1981, President Reagan gave the following justification for this policies towards the Soviets:

Shaffer/Militarism
There's one thing sure. They cannot vastly increase their military productivity because they've already got their people on a starvation diet as far as consumer products are concerned. But they know our potential capacity industrially, and they can't match it [emphasis added]. So we've got the chip this time, that if we show them the will and determination to go forward with a military buildup in our own defense and the defense of our allies, they then have to weigh, do they want to meet us realistically on a program of disarmament or do they want to face a legitimate arms race [emphasis added] in which we're racing.⁹

Knowing full well from past history that the Soviets would not permit the United States or anyone else to dictate to them, Reagan certainly must be aware that the US build-up will force the Soviets to respond in kind. He believes that because the Soviets have full employment, they will be able to match a US build-up only by drastically lowering their living standards. The US rearmament program hence is designed to “break” the Soviets economically. Hopefully, from the US point-of-view, more “Polands” will erupt throughout the Soviet bloc.

This view is apparently widely held within the Pentagon. Nicholas Lemann, a writer for *The Atlantic Monthly*, summarized a “scenario, which can be heard around the Pentagon and elsewhere in the Administration” as follows:

Of course we are in an arms race with the Soviets. Of course it won't end at the bargaining table. We can win it. Their society is economically weak, and it lacks the wealth, education, and technology to enter the information age. They have thrown everything into military production, and their society is starting to show terrible stress as a result. They can't sustain military production the way we can. Eventually it will break them, and then there will be just one superpower in a safe world—if, only if, we can keep spending.¹⁰

A similar observation comes from George Ball, a former US Under Secretary of State, who wrote that Reagan believes that if:

America only stays strong and resolute long enough the Soviet system will, as he said to the British houses of Parliament, be left “on the ash heap of history.” Hence America need only “hang tough”—to use a favorite phrase of the macho right wing—and wait for the denouement, meanwhile trying to speed the process of Soviet decay by economic pressures and talk of a reunited Europe.¹¹
While this military build-up unquestionably brings severe economic pressure on to the Soviet Union, it is also creating major economic problems for the United States. There is, in fact, a possibility that it may "break" the United States before it "breaks" the Soviet Union. Starting in the sixties, US power began to erode steadily. As a result, the US is no longer in a position where it can harm others with impunity. In today's world, economic warfare against others also exacts a toll from the United States. The grain embargo which it imposed on the Soviet Union because of Afghanistan, for example, hurt the US more than it hurt the Soviets.

The contemporary world economic relationships present the United States with a serious dilemma—domestic prosperity will bring with it a further erosion of the country's international position. In other words, the more prosperous the country becomes, the more likely it will wind up second best in the economic wars in which it is engages. Nowhere is this paradox more apparent than in the pattern of raw material prices.

3. Oil Prices Historically, raw material prices have risen sharply as industrial production expanded. This price behaviour benefitted the United States when it was a net exporter of raw materials. Since the end of World War II, the US has become a significant importer of raw materials. Of special significance was the country's increasing reliance on foreign oil. Initially this reliance on imported raw materials, while causing some concern, was not viewed with alarm, because a large portion of the imports came from American-owned firms. Though the imports adversely affected the nation's merchandise balance, they had a positive effect on its overall balance of payments, since a significant share of the profits flowed to the United States.

This US view changed dramatically in the seventies when oil prices skyrocketed. OPEC, furthermore, was able to capture for its members practically all the increased profits generated by the higher oil prices. The international oil companies, most of whom are American-owned, lost their traditional control over production and prices. These developments alarmed US policy makers. Not only did they fear the long-term adverse effects on the balance-of-payments, but they also feared the
growth of a new economic grouping—the OPEC countries—which would provide a new challenge to US dominance. Even more disconcerting was the apprehension that these countries would soon be in a position to buy out most of the major US multinational corporations.

Given these developments, the US was determined to reduce significantly the power of OPEC. What became apparent was that OPEC's power was based on the market conditions prevailing at that time. Though born in 1961, OPEC was not able to affect significantly either oil prices or profit shares until the next decade. In the sixties, the world was literally floating in a sea of oil. Because of this came glut, the bargaining power of the producers of oil—and other raw materials as well—was weak. In the decade that followed, the world faced an apparent oil shortage, which enhanced OPEC's bargaining posture. Acting like any well-run multinational corporation, OPEC took full advantage of the changed environment by pursuing policies designed to maximize the gains for its members. It has often been said that the OPEC leaders, many of whom are graduates of the Harvard Business School, learned their lessons well.

It became apparent to US policy-makers that the only way to reduce OPEC's power, short of military action, is to create another oil glut. How could this be accomplished in a world supposedly short of oil? In the long-run, it can be achieved through conservation, the exploitation of non-OPEC oil, and the development of alternative energy sources. In the short-run, it can be attained only through a reduction in economic activity, i.e., an economic downturn. Since the demand for oil is highly dependent on the state of the economy, rising and falling with the ups and downs of the business cycle, it can be regulated through controlling the level of economic activity.

In this context it should be noted that terms "glut" and "shortage" are relative rather than absolute ones. Today, when we are again in a period of an oil "glut", world production is approximately fifteen percent below that of 1979. In that year, when world production was at an all-time high, we had an oil "shortage". This raises an interesting question. How is it possible to move from a "shortage" to a "surplus" by reducing production? The answer to this paradox is that demand has fallen more than production, and it is this fall in demand that
has turned the "shortage" into a "surplus". The reappearance of the oil "surplus" has come at the price of lowered living standards in the United States and the other industrialized market economies. Unemployment—the "surplus" of labour—is the other side of the coin of the "surplus" of oil. At the same time, the bargaining power of OPEC has been weakened, while that of the United States has been strengthened. This process undoubtedly what former Secretary of State, Henry Kissinger, had in mind when he declared in 1974 that the United States must achieve "strength through misery".\footnote{12}

The achievement of "strength through misery" requires the containment of any boom that a rearmament program might engender. A boom would increase the demand for all goods and services, including that of oil and other raw materials. It could speedily transform today's oil "glut" into another "shortage". The bargaining power of OPEC would again increase, while that of the United States would decline. Prosperity would undermine the US position in international economic relations.

A boom would also be self-defeating. If a purpose of the US rearmament program is to damage the Soviet economy, it then does not make sense for the US to help that economy. But a US boom will also benefit the Soviets. Since a boom will exert upward pressure on oil and other raw material prices, it will increase the value of USSR's main exports, thereby enhancing that country's foreign exchange earnings. The very logic of today's military build-up therefore dictates that it cannot be allowed to bring the prosperity associated with past build-ups.

There are a number of measures a government can take to counter the stimulative effects of large-scale expenditures. Among these are: (i) tax increases; and, (ii) tight money and high interest rates. The exact measures government does take depend upon the domestic political environment and its overall economic objectives. The Reagan administration initially gave preference to tight money and high interest rates and, instead of raising taxes, has actually lowered them. In addition, it tried to limit the growth in spending by cutting back non-military outlays as it increased the military ones.

4. **Tax Increases** The US government chose these particular options for reasons of ideology and economic warfare. Lower
income taxes and reduced non-military expenditures are two of the key pillars of the "supply side" economics, which the present administration favours. This school of economics believes that any reduction in the role of government will free the private sector of unnecessary encumbrances, allowing it to operate more efficiently. It might be added that this particular philosophy also serves the self-interest of Reagan's most powerful backers.

The adoption of this approach by the government, however, involves something more than the immediate self-interest of its most ardent supporters. It is also part of the strategy that is being used in the economic warfare being waged by the major industrialized market economies against each other. All of these economies are in a race to be the first to develop the new technologies and the new sources of energy which must eventually supplant oil. They are all trying to restructure their domestic economies to prepare them for this new era. This restructuring dictates that national income be transferred from consumption to investment, because only through an increase in investment can an economy adapt to the new age. Since in a market economy the main source of investment is private profits, these must be increased if the adaptation is to be successful. By simultaneously reducing income taxes and non-military government outlays, the government is shifting national income in the direction of profits.

Non-military expenditures, which tend to benefit the less wealthy segment of the population, are at least partially financed by income taxes on the more wealthy. It must be remembered that a significant portion of the beneficiaries of non-military expenditures pay little or no income taxes. By reducing both non-military expenditures and income tax, the government transfers income to the more wealthy. This transfer, if successful, increases the after-tax profits of businesses.

A rearmament program also facilitates this transfer. By its very nature, it is not designed to benefit the less wealthy, though under certain circumstances some segments of the lower income population might benefit from it. The bulk of the benefits usually accrue to large corporations producing equipment for the military. According to estimates by the US Census Bureau, the ten largest weapons contractors earned a twenty-five percent after-tax rate of return on equity in 1984.
For manufacturing as a whole, this rate was only 12.8 percent. In actuality, the after-tax profits of the military firms were higher than their stated profits. Their stated profits do not include their “deferred” taxes. These are tax obligations which the firms did not have to pay in 1984, but are supposed to pay in some future year. In the meantime they can use these “deferred” taxes in their business operations, just like an interest-free loan. The “deferred” taxes of these ten companies in 1984 amounted more than $1.1 billion. For some companies, a "deferral" seems to be permanent. General Dynamics, for instance, which reported after-tax profits of $684 million in 1984, has not paid any US income taxes since 1972.13

Whether the profits of these particular companies will enable them to produce advanced products for the civilian as well as the military market is questionable. But if a government believes that there is a significant civilian spin-off from military research and production, it can increase its military expenditures as a means of bolstering its competitive position vis-à-vis the other industrialized powers.

5. Rising Interest Rates The interest rate is another way to accomplish this goal. An increase in the rate, ceteris paribus, reduces consumption, especially that of durable goods, whose purchases are usually made on credit. An increase in the interest rate also has an adverse effect on certain types of investment, like housing. It is devastating to small business people and farmers. But a hike benefits the wealthier groups, who have money to lend; and through increased interest payments, redistributes income to them. These increased payments, coupled with tax reductions, place more funds in the hands of the wealthy. The wealthy presumably will invest these funds in the new industries, which will restructure the economy. Whether this, in fact, will happen remains to be seen.

A high interest rate also rations the available investible funds to the most profitable industries. Conversely, it inhibits investment in those industries earning a rate of return lower than the interest rate. In today’s world, the military, space, and high technology industries are the main industries earning rates of return significantly above the rate of interest. As already noted, these high rates are more the result of governmental largess than performance in a competitive market. This
raises the question as to whether these industries will be able to compete in future world markets.

In the United States, high interest rates have served to undermine the competitiveness of important sectors of the economy. Agriculture, the traditional "smoke stack" industries, and even the new, high technology industries like computers are all suffering from foreign competition. Their losses are due, in part, to the after-effects of the formerly high value of the American dollar, which was a product of the high interest rates of several years ago.

6. Deeper Deficits The United States is caught in a vicious circle. Because of the previously high value of the American dollar, the US has been accumulating the largest trade deficit in its history. Before 1970, it should be remembered, the US had large surpluses in its merchandise trade balance. In the past few years, these surpluses have been transformed into enormous deficits. This dramatic change can be seen in Table 1, below

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<tr>
<th>YEAR</th>
<th>DEFICIT</th>
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<tr>
<td>1981</td>
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<td>1985</td>
<td>124.4</td>
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<td>1986</td>
<td>169.4</td>
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Between 1982 (when Reagan took office) and 1986, the merchandise trade deficit rose from $28 billion to $169 billion, or over six-fold. This deficit exerted downward pressure on the US dollar and presented the US government within a
serious dilemma. If, through its high interest rate policy, the government continued to bolster the value of the dollar, the trade deficit could reach such heights as to undermine confidence in the US dollar. A run on the dollar could occur, as holders of dollar assets started converting their dollars into other currencies, and into gold. These conversions would raise the dollar price of the other currencies, and of gold. Since the Soviet Union is a leading exporter of gold, it stood to benefit from such a run on the dollar.

Probably more importantly, a collapse of the dollar would engender an international financial crisis. Since the dollar is an almost universally accepted means of payment of international obligations, it has become the *de facto* world currency. If, as a result of a sharp decline in its value, the American dollar loses its acceptability, the world would face a liquidity crisis. There would not be a sufficient supply of gold—the other universally accepted means of payment—to support the current level of world trade and investment at present prices. Economic activity would grind to a halt, and a major depression would ensue.

The other capitalist countries also became concerned about the consequences of a possible collapse of the dollar. They were also unhappy about the high interest rates in the US. Under other circumstances, these countries should have benefited from the US trade deficit since it should have increased their exports to the US and stimulated their economies. But their growth was stifled because a great deal of their foreign trade income was invested in the US, rather than at home. Even Prime Minister Thatcher of Britain, normally a staunch supporter of Mr. Reagan's policies, had sharply criticized the United States on this issue. To deal with this problem the Group of Five (United States, Great Britain, France, Germany and Japan) signed an agreement in September 1985 to nudge the dollar down in a controlled manner. As part of this agreement, the US was forced to abandon its high interest rate policy. Since that time, the dollar has fallen substantially.

But the anticipated results of this devaluation have not, at least up to now, occurred. First, the US trade deficit has not only failed to improve but, as shown in Table 1, has substantially worsened. Second, the low value of the dollar has hurt the exports of the capitalist countries—notably Japan—who
are presently complaining about its effects. This outcome is paradoxical because one would expect that the counterpart of a decline in Japanese exports would be a decline in the US trade deficit. A full explanation of this paradox is beyond the scope of this paper, but it would seem that the benefits of the dollar devaluation have been reaped by the new, cheap labour industrializing countries like South Korea, Taiwan, Hong Kong whose currencies are tied to the US dollar. Whatever the explanation, this controversy over the dollar illustrates the contradictions within the world capitalist system, contradictions which have been exacerbated by the US arms build-up.

Another consequence of this build-up is the change in the US international investment position from a net creditor to a net debtor. As already mentioned, the high interest rates in the US drew in foreign funds, a significant portion of which were invested in US government paper. Foreigners are therefore financing a large part of that country's budgetary deficits. This type of financing does not increase a nation's productive capacity, only its debt. A second effect of this financing is that in 1985, the United States became for the first time since 1914 a net debtor to the rest of the world. By the end of 1986, its net foreign debt was approximately $220 billion, far higher than any other country in the world. This huge debt poses a danger to its economy. A loss of confidence in the dollar or in the US economy would induce foreigners to sell off their US assets. Security prices would fall, interest rates would soar, and a financial crisis could ensue.

This danger places limits on the ability of the US to reduce its trade deficit by devaluing the dollar. A reduction in domestic interest rates, necessary for a devaluation, would engender an outflow of funds, which would exert upward pressure on interest rates. Furthermore, the huge federal government deficits which the US has incurred since the beginning of its rearmament program, also exert upward pressure on the rates. The magnitude of these deficits is shown in Table 2, below.

In 1979, the federal government's deficit was $16 billion. By 1986, this deficit grew to $204 billion, the highest in its history. All told, in the eight years 1979-1986, the deficit rose
almost thirteen-fold, in this respect. It should be recalled that President Reagan in his 1980 election campaign promised to eliminate the deficit by 1984.

More significant than the actual size of the deficit is its relationship to Gross National Product (GNP). If GNP grows at the same or at a faster rate than the deficit, then the growth in the deficit is not a cause for alarm. But if the deficit grows at a faster rate, then it can become a serious burden. As can be seen in Table 2, this is precisely what is happening in the US. The deficit rose from 0.7 percent of GNP in 1979, to 4.9 percent in 1986, the third highest percentage in the post-World War II years. The highest was 5.2 percent in 1983; the second, 5 percent in 1985.

Accompanying the rise in the deficit has been the rise in interest payments. As can be seen in Table 2, they rose from $43 billion in 1979, to $131 billion in 1986, a three-fold increase. Their share of GNP grew from 1.5 to 3.2 percent during the same period. In the fiscal year ending 30 September 1987, interest payments will total $137 billion, and will be exceeded only by military expenditures and social security outlays. Interest payments will be significantly higher than spending for such items as health, education and medical care. Though this pattern of spending is consistent with the

<table>
<thead>
<tr>
<th>YEAR</th>
<th>GNP (---$ BILLIONS---)</th>
<th>DEF</th>
<th>INT.</th>
<th>DEF/GNP</th>
<th>INT/GNP</th>
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<td>2,417.8</td>
<td>16.1</td>
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<td>2,631.7</td>
<td>61.3</td>
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<td>2.0%</td>
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<td>63.8</td>
<td>72.4</td>
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<td>2.4%</td>
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<td>145.9</td>
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<tr>
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<td>3,401.6</td>
<td>176.0</td>
<td>94.3</td>
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<td>2.8%</td>
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<tr>
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<td>170.0</td>
<td>115.6</td>
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<td>198.0</td>
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<td>3.3%</td>
</tr>
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<td>1986</td>
<td>4,208.5</td>
<td>204.0</td>
<td>135.8</td>
<td>4.9%</td>
<td>3.2%</td>
</tr>
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*Partially estimated.

Reagan administration's policy of redistributing income to the wealthy, it poses two problems.

First, as already noted, a rising portion of these payments are going to foreigners, and therefore are a drain on the US economy. Second, they make debt reduction—an avowed aim of the administration—more difficult. They increase the pressure for tax increases, for reductions in military outlays, or for reductions in social programs. The first two alternatives are contrary to the administration's objectives. The last one, while consistent with these objectives, will erode popular support. Social Security payments, for instance, are the budget's second biggest item. Reducing them significantly would facilitate debt reduction, but would also alienate senior citizens, who form an important component of Reagan's political base. It is therefore not surprising that despite his rhetoric, Reagan has opted to let the deficit increase. As a result, the government debt (the accumulated deficits) rose from $834 billion at the end of the fiscal year 1979, to an expected $2.4 trillion by the end of the fiscal year 1987,16 or almost three-fold. As a comparison, this debt is over six times greater than Canada's 1986 GDP.

A policy of large deficits forces the government in a capitalist economy to borrow more and more funds in the money market. If the private sector is at the same time expanding its activities, it will also seek funds in the money market. This pursuit of funds puts upward pressure on interest rates. The government can counter this pressure in one of two ways. One is to increase the money supply. The problem with this is that it is inflationary. It would induce rises in raw material prices, and therefore would run counter to economic warfare objectives of the Reagan administration. The second way is to reduce economic activity in the private sector. This would reduce the demand for funds in the money market, and therefore mitigate the upward pressure on interest rates. This is apparently what is now happening in the United States, where economic activity has slowed down considerably during the last year.

This slow-down itself creates another problem in any attempt to reduce the deficit. A significant cut could plunge the United States into a full-blown depression. The Reagan administration has fallen into a quagmire, from which it can escape.
only at a high cost to the US economy. The economic trap it intended to spring on the Soviet Union has sprung instead on the United States.

7. Rising Awareness More and more Americans are beginning to realize the full economic implications of the rearmament program. An organization called The Bipartisan Appeal Committee (founded by five former Secretaries of the Treasury and one former Secretary of Commerce) in 1985 took out a two-page ad in the *New York Times* calling for budget cuts. This statement was signed by over six hundred prominent Americans, including former Cabinet members of both Republican and Democratic presidents, former members of the President's Council of Economic Advisers, and over four hundred and fifty executives of some of the country's largest corporations. This statement explicitly linked the military build-up with the nation's poor economic performance, and called for an end to any further increases in military expenditures. The statement warned:

> Multi-year defense spending must be brought into line with available fiscal resources and the sustainable growth capacity of the economy. After five years of defense real growth averaging nearly 9% annually, we have reached the point where additional military and foreign policy gains from the Administration's previously projected high spending path would be more than offset by faltering US economic performance and weakened international economic leadership.17

The world has changed irreversibly since the 1950's. The US can no longer wage economic warfare against others without inflicting serious economic losses on itself. The arms race may well "break" the United States before it "breaks" the Soviet Union. Instead of solving today's economic woes, it is contributing to them.

Notes

I wish to thank both Don Wells and Duncan Cameron, who refereed this paper, for their useful and valuable comments. I accept full responsibility for any errors or omissions.
4. *Economic Report of the President Transmitted to Congress*, p. 278 (See n. 1, above.)
5. Ibid.
6. Ibid. p. 280.
7. Ibid., p. 293.
16. Ibid., p. 331.